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SCOTIABANK: STANDING STRONG IN LATIN AMERICA

- CASH DISPLACEMENT: Scandinavia
- INCLUSION: Gender Equality
- CUSTOMER SERVICE: Toronto Dominion
- M&A: VocaLink

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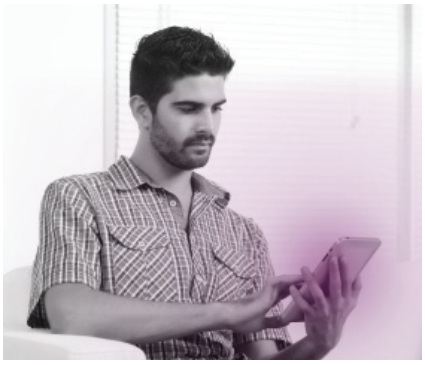

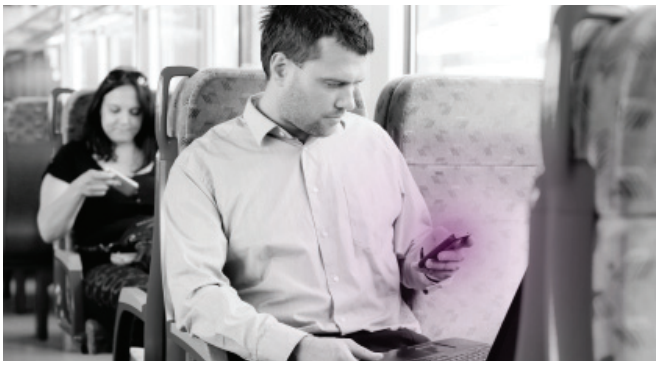

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Intelligent Environments is an international provider of innovative mobile and online solutions for financial services providers. Our mission is to enable our clients to always stay close to their own customers.

We do this through Interact®, our single software platform, which enables secure customer acquisition, engagement, transactions and servicing across any mobile and online channel and device. Today these are predominantly focused on smartphones, PCs and tablets. However Interact® will support other devices, if and when they become mainstream.

We provide a more viable option to internally developed technology, enabling our clients with a fast route to market whilst providing the expertise to manage the complexity of multiple channels, devices and operating systems. Interact® is a continuously evolving technology that ensures our clients keep pace with the fast moving digital landscape.

We are immensely proud of our achievements, in relation to our innovation, our thought leadership, our industrywide recognition, our demonstrable product differentiation, the diversity of our client base, and the calibre of our partners.

For many years we have been the digital heart of a diverse range of financial services providers including Atom Bank, Generali Wealth Management, HRG, Ikano Retail Finance, Lloyds Banking Group and Think Money Group.

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VocaLink is a great deal for MasterCard

For MasterCard, the VocaLink deal looks a good bet.

The £700m ($920m) cash deal to acquire a 92.4% stake in VocaLink will have a negligible effect on MasterCard earnings, reducing earnings per share by an estimated $0.05 per share for a couple of years.

For VocaLink's UK banks owners: RBS for example will no doubt find it handy to book a £150m pre-tax gain; ditto Barclays (£104m) and Cooperative Bank will surely find a good use for the £22m that it will pocket.

In a conference call, MasterCard's chief financial officer Martina Hund-Mejean said that the deal was an 'important component of our strategy to actively participate in all types of electronic payments and payment flows'.

The deal will do a little more than that.

MasterCard's current share of the UK debit card market is a miserable 4% or so. Expect that to rise in the medium term as MasterCard will target new revenue by trying to shift UK banks debit card portfolios away from Visa.

VocaLink has enjoyed international success with the expansion of its real-time network and has licensed its technology to support faster payments systems in the US, Sweden, Singapore and Thailand.

MasterCard will no doubt look to cash in on the growing international demand for interbank infrastructure services.

If, however, MasterCard looks to recoup the purchase price through increased connectivity and transaction fees, the VocaLink deal may not look quite such a good deal for all stakeholders in a few years time.

As MasterCard ramps up its cash displacement strategy, how long can UK consumers expect over 97% of all LINK ATM transactions to be free?

The way we bank

The third version of the British Bankers Association's Way We Bank report (with EY) is out and it is a must read. A number of the channel stats jump out from the pages, such as the one relating to customer bank branch interactions.

They declined from 476 million in 2011 to 278 million in 2016; in 2016, this equates to 71 average branch visits per day – a 32% fall since 2011. This decline is forecasted to continue with a further fall to 51 average branch visits per day by 2021.

Meantime, the BBA reports that there were nearly 11 million logins a day to mobile banking apps in 2015 – a 50% year-on-year rise.

A number of tipping points have been reached in the past year. HSBC, for example, saw the number of logins to its mobile app eclipse the number of logins to its internet banking service for the first time.

Functionality has improved beyond all recognition at a number of banks; RBS' 3 million m-banking customers can now set up a savings account and cancel their direct debits from their mobiles.

At this rate of relative growth - internet banking logins actually dropped last year to 4.3 million a day in 2015 compared with 4.4 million in 2014 – it may not be long before mobile app payments overtake payments being made using internet banking.

There is much to celebrate as regards UK banks' digital banking innovation but just in case any hint of complacency creeps in, a sobering note is sounded by the analysts Forrester.

In mid-July it released its 2016 Global Mobile Banking Benchmark report, ranking 46 major banks across 14 countries. Only one UK lender – Lloyds – made it into the top 10.

For the record, Westpac just edged out Caixabank for top spot, ahead of CIBC and Scotiabank, followed by Garanti, Bank of America Bank ZachodniWBK, Wells Fargo and CBA.

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Who needs cash? Not Scandinavia

While a 'cashless society' is often brought up in thinkpieces and discussions worldwide, there is only one region taking the initiative with this movement. Scandinavia is closest to truly being cashless, but how is the market shaping up? **Patrick Brusnahan** writes on this region with help from Timetric's research

The cashless revolution is truly underway in Scandinavia. In Norway, reports say that only 6% of the population are still using cash.

According to Sweden's central bank, the Riksbank, cash transactions made up barely 2% of all payments made in Sweden in 2015, a figure which has been predicted to drop to 0.5% by 2020.

Over the past 10 years, Danish banks have closed down every fifth cash machine and every second bank branch in the country.

Minimising cash

Banks in Norway are slowly adapting their branches into cashless locations. In 2014, 64 branches of DNB were made cashless. Similarly, Nordea stopped handling cash at all its branches in October 2015. This initiative is anticipated to accelerate the shift towards electronic payments.

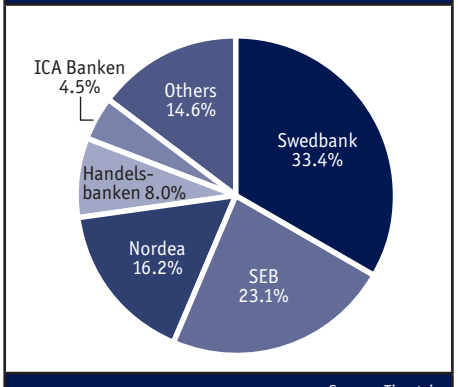
In January 2016, Swedish banks expanded Swish, a mobile app for online transactions. While previously used for P2P and in-store payments, it has grown in popularity with 4.4 million users in Sweden as of June 2016.

In December 2015, $688.4m worth of transactions went through Swish, increasing to $892.3m in May 2016.

In addition, MasterCard launched its MasterPass digital wallet in association with Nordea, SEB and Swedbank in December 2015. ICA Banken and Resurs Bank also joined in early 2016. MasterPass users can shop online without having to enter payment and shipping information with every purchase.

Government policies, as well as a rising

DEBIT CARD ISSUER SHARES IN SWEDEN, 2015



Source: Timetric

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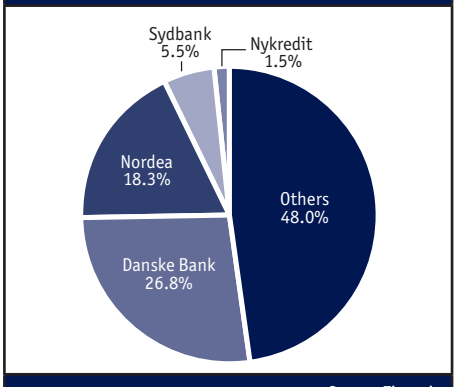
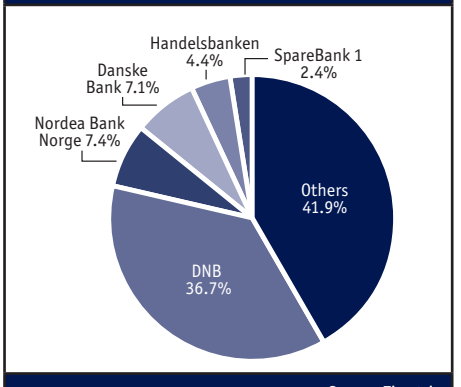


Source: Timetric

DEBIT CARD ISSUER SHARES IN NORWAY, 2015



Source: Timetric

consumer preference, are aiding the push towards a cashless society. The Danish government proposed a plan in May 2015 that would allow certain retailers to refuse cash payments; it is expected to be implemented in 2016. Moreover, the government has set a deadline to make Denmark completely cashless by 2030.

This seems to be working, as cash payments are declining in Denmark. Cash transactions accounted for 35.7% of total payments in 2011 and this decreased to 28.1% in 2015. In comparison, in other developed European markets, cash took 44.1% of the overall volume.

The Swedish government is equally focused on bringing about a cashless society, a policy supported by retailers' reluctance to accept cash.

Examples include retailer Kungsaengen and mobile phone retailer 3, neither of which accept cash. The payment cards market grew at a compound annual growth rate (CAGR) of 8.58% between 2011 and 2015.

REGIONAL BENCHMARKING OF PAYMENT CARDS, 2015

Country	Cards Per Inhabitant	Average Annual Spend Per Card ($)	Average Monthly Card Transactions
Norway	2.78	6,350.4	11.3
Sweden	1.35	5,540.8	10.4
Denmark	1.68	7,390	14.9
Finland	1.76	5,067.3	12.2
Lithuania	1.18	3,807.2	4.5
Estonia	1.4	2,794.6	11.8
Latvia	1.21	1,965	7.5

Source: Timetric

Contactless technology

Norway is still in the early stages of adopting contactless technology, with only DNB, Danske Bank and Handelsbanken offering contactless cards.

In an attempt to increase uptake, banks are differentiating product offerings with new features. In 2016, Danske Bank rolled out its MasterCard-branded contactless cards with integrated fingerprint sensors in association with the Norway-based fingerprint authentication technology provider Zwipe.

It is the world's first fingerprint-activated contactless card, combining authentication with convenient contactless technology.

In June 2016, debit network BankAxept partnered with Canada-based debit network Interac to accelerate a rollout of NFC-enabled mobile payment solutions.

Contactless technology is still in development in the Swedish market and only a few banks, such as ICA Banken and Danske Bank, offer contactless cards.

It certainly suffers from a lack of promotion from the bigger banks. ICA Banken is the largest issuer of contactless cards, with plans to issue 560,000 contactless payment cards by the end of 2016.

This seems fairly ambitious as Timetric estimates that, at the end of 2015, there were only 100,000 contactless cards in Sweden.

With the rising number of small businesses and street vendors accepting payment cards for small-value transactions, the introduction and further adoption of contactless is expected to drive the market's growth.

According to Timetric, Denmark had the highest number of contactless terminals and the second-highest number of contactless cards in the Nordic region as of 2015.

In November 2015, there were 5.3 million contactless cards in the country – equivalent to 55.6% of overall payments cards – and 61,000 contactless POS terminals in the country, approximately 43.8% of the overall number of POS terminals.

To capitalise on its growing popularity, Danske Bank and Jyske Bank began offering contactless Dankort cards from August 2015. Contactless mobile payments are also gaining ground.

Nets entered into an agreement with JCB in April 2016, allowing merchants to accept Dankort debit card payments via smartphones using J/Speedy, JCB's contactless technology. This can be used to make contactless payments up to DKK200 ($29.80); a security code is required for transactions above this amount.

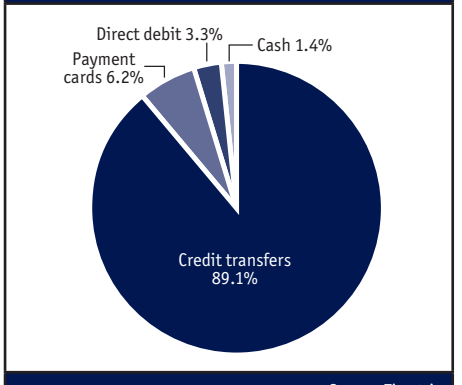
Looking at alternatives

A number of new payment options have cropped up in Norway. Seqr was launched in January 2013, followed by MeaWallet in October 2014.

In October 2015, SpareBank 1 acquired mCash, which had 100,000 users and was accepted in 600 stores at the time of the deal.

Danske Bank also launched Mobile Pay in September 2015 in partnership with 100 retail outlets in Norway and with Rema 1000, a supermarket chain, in 2016.

PAYMENT INSTRUMENT SHARES IN SWEDEN (2015)



Source: Timetric

In an attempt to increase consumer convenience, BankAxept is planning to launch a new online payment service in 2016, BankAxess, to allow customers to transfer funds from their account directly. The initiative is anticipated to increase the value of online and mobile payments.

Non-banking firms are starting to offer banking and financial services in Sweden. The invoice-based payment solution provider Klarna applied for a banking license in October 2015.

It is still awaiting approval from the Swedish Financial Supervisory Authority (FSA) and plans to offers savings accounts and debit cards.

A number of mobile POS (mPOS) providers are trying to capitalise on the increasing number of transactions made at retail outlets by foraying into the Danish payments industry.

The latest of these is the introduction of a cloud-based POS solution by startup Shopbox in April 2016. This solution aims to provide faster transaction processing at small merchants such as coffee shops, clubs and sports arenas. Shopbox's POS solution runs on both iOS and Windows-based tablets.

In addition, iZettle launched the iZettle Card Reader Lite in February 2015, a chip-and-PIN card reader that can be connected to tablets and smartphones to accept card-based payments.

To expand its reach in the Nordic and Baltic regions, Nets signed a $255.5m agreement with Nordea in June 2015 to acquire its merchant acquiring business.

The agreement enables Nets to service 240,000 merchants across the Nordic and Baltic regions.

The company is also focused on the improvement of payment infrastructure and signed an agreement with Dansk supermarket in 2014 to upgrade its POS terminals with contactless technology. ■

Scotiabank invests in the Latin American retail banking sector

Many international retail banks are discontinuing services in Latin America, but Scotiabank is bucking the trend. Stacey Madge, senior vice-president of international retail banking at Scotiabank, outlines the bank's Latin American and Caribbean branch transformation and digital strategy to **Robin Arnfield**

Unlike HSBC and Citigroup, which have been disposing of retail banking operations in Latin America, Scotiabank is investing in the region.

Scotia has seen strong performances at its subsidiaries in the Pacific Alliance (Chile, Colombia, Mexico, and Peru) region.

Mexico, Peru, Colombia and Chile are core to the bank's strategy, and they continue to achieve more robust GDP growth than Canada and the US. In Mexico, Scotiabank has around 2.8 million retail banking customers, followed by 2.5 million in Chile, 1.6 million in Peru, and 1.5 million in Colombia.

In January 2016, Scotiabank appointed Ignacio "Nacho" Deschamps as strategic advisor, global digital banking to Scotia CEO Brian Porter.

Deschamps, who was formerly chairman and CEO of BBVA Bancomer, Mexico's largest bank, has extensive fintech relationships and digital experience in the US and other markets. He was appointed as Scotiabank's group head, international banking and digital transformation in February 2016.

Scotiabank is investing heavily to cater for digital consumers in Latin America.

"We're digitising our processes, implementing digital business models, and partnering with fintechs so we can provide customers with faster service and better offers," Stacey Madge, senior vice-president of international retail banking at Scotiabank tells *RBI*.

Over the last five years, mobile banking penetration has grown by 700% in Latin America, while Scotiabank has seen its mobile banking penetration grow by 70% year-on-year, Madge says.

Scotiabank is investing $185m in a new core banking technology system in Mexico to enable staff to provide high-quality customer service and advice.

It has also enhanced its Mexican online and mobile banking platform and will be rolling out this enhanced mobile and online banking platform across its Latin American and Caribbean subsidiaries.

Later this year, and into the next, Scotiabank will offer enhanced and more personalised services to customers such as online advice, tools and pre-approved solutions. These investments are part of a multi-country programme to increase primary customer relationships through online and mobile channels.

In January 2016, Scotiabank launched four prototype digital branches in Mexico City, with tablets and smartphones that enable customers to do online and mobile banking, use financial planning tools, and provide feedback on their banking experience.

Mobile sales officers

Scotiabank has equipped its mobile sales officers in Colombia and Chile with tablets for use outside the branch, with other countries in the Caribbean and Central America to follow later in 2016.

Bank officer productivity is expected to improve by 20% as a result of tablets simplifying the application process while reducing the time to acquire products.

"In some Latin American countries, people don't want to go to the branch," says Madge.

"They want you to come to them. So our mobile sales officers have tablets so they can take a full digital product application and get a digital signature and digital copy of the customer's ID. In Chile, you can use your fingerprint, and all your key demographic information is immediately prepopulated onto the tablet via your fingerprint."

Scotiabank is also equipping its premium banking officers in Chile with tablets so they can visit customers at their home or place of work. The bank will shortly start equipping its premium banking officers in other countries with these tablets.

In its Latin American markets, Scotiabank is primarily targeting the emerging middle and upper-middle classes, or mass affluent.

Mass affluent customers are served through Scotia's Premium Banking brand in which they have a premium service model, premium products and premium privileges.

This has been very successful in growing the bank's presence in this segment. In some markets, it has dedicated brands to serve the consumer and microfinance segment, such as CrediScotia in Peru.

Madge says credit cards are an important part of Scotiabank's business in Latin America.

"Credit cards are a big priority for us. We recently formed an alliance with Linio, Latin America's largest online retailer, which includes launching a co-branded Visa credit card in Colombia and Mexico. We will soon be offering digital applications for the card in Mexico with immediate approvals."

In May 2015, Scotiabank bought 51% of Latin American retailer Cencosud's Chilean credit card business.

"We also have a partnership with Cencosud in Colombia through [Scotiabank-controlled] Banco Colpatria," says Madge.

As part of Scotiabank's recent purchase of Citigroup's retail banking operations in Costa Rica, Panama and Peru, it acquired Citi's credit card businesses in those countries.

"What's nice about our Citi credit card acquisition is the American Airlines AAdvantage alliance and loyalty programme, which is very beneficial for our customers," explains Madge.

"Citi has been a great acquisition for us in the credit card space and in the premium banking space – mass affluent customers."

A unique aspect of Latin America's banking market is the use of biometric authentication.

"Many Latin American countries have collected their citizens' fingerprints for years, for example Chile," Madge says.

"This was done to formalise the economy, but it enables banks to improve the process of authentication. In our Cencosud stores, you can use your fingerprint to get a pre-approved loan and pre-approved credit card. We have introduced kiosks which instantly print out a credit card in the store."

"We recently carried out a project with IDEO, a leading design firm, in collaboration with Scotiabank Canada. IDEO did a lot of ethnographic research with us and our customers to understand the needs of Latin American consumers.

"Working with IDEO, we designed four digitally-enabled branch prototypes in Mexico City. These range from a flagship branch with specialist services down to an in-store branch which could be as small as 250 square feet in size.

"As part of our branch transformation planning, we did research across four of our major countries: Chile, Colombia, Mexico, and Peru.

Scotiabank in Latin America and the Caribbean

Scotiabank is the only Canadian retail bank to operate in Latin America. Its four core retail banking markets in Latin America are Chile, Colombia, Mexico and Peru.

It also has operations in Uruguay, Costa Rica, El Salvador, and Panama as well as in 21 Caribbean countries including the Dominican Republic and Puerto Rico.

In February 2016, Scotiabank completed its approximately $360m purchase of Citigroup's consumer and commercial banking operations in Costa Rica and Panama, boosting its customer based in these countries from 137,000 to 387,000.

Scotiabank acquired Citi's Peruvian retail banking operation in May 2015, and also bought a 51% stake in Latin American retailer Cencosud's financial services business in a 15-year strategic alliance.

The partnership includes the management of Cencosud's Chilean credit card portfolio and the provision of additional products and services to customers of both organisations.

In Peru, Scotiabank's CrediScotia subsidiary offers credit cards and loans to lower-income consumers and microfinance loans to small businesses. Scotiabank also has consumer finance operations in Mexico and Uruguay. ■

"The intention is for the prototype digital branches deployed in Mexico City to become our new standard for branches when we build a new branch or refurbish an existing branch."

Madge adds that Scotia is trying to enable a distinctive and proactive service culture that helps customers understand its self-service channels and provides helpful service steps. A key element of this involves deepening relationships with customers, holding needs-based conversations with them, and fostering a learning environment for customers.

"What is important for us is to make our branches as digital as possible with tablets throughout the branches where customers can do online and mobile banking, complete customer feedback surveys, and do simple, goals-based planning through the 'Mi Plan' (My Plan) app.

"These tablets, which are being rolled out with our new branch formats starting with our prototype branches in Mexico, can be used on an unattended basis or with a customer service and sales officer in attendance."

Financial education is a big opportunity in Latin America, so the bank has held learning events and provided financial tools focused on helping clients meet their goals.

Around its Latin American branches, tips are posted on signs to help customers become better off, and tellers also give customers financial literacy tips.

"In Canada, we talk a lot about financial advice and savings for retirement to our customers. In Latin America and the Caribbean, we talk about financial literacy.

"Sometimes, when customers are given a credit card, they have to be educated on how to use the card and make sure they don't spend up to their credit limit and compromise their ability to make repayments.

Unlike Canadian consumers, Latin American and Caribbean consumers' goals can be more near-term – 'something I will do a year or two from now' versus '20 years from now'.

"We are trying to train our front-line staff and deploy digital tools to keep these customer nuances in mind."

Customer relationships in Latin America

"Right now, across many of our markets, our people-based channels are a source of differentiation. We tend to do well in terms of customer feedback for our people-based channels.

"Now we want to be the best bank in the region for digital customer experience. We want customers to able to do their sales and service activities at their channel of choice without having to restart their application or refile a complaint.

"Across our Latin American markets, we are trying to build out the exact same technology platform, and we also share learnings across markets. This means that any innovation that is implemented in one market can be used to benefit another market, instead of having separate platforms in different markets.

"If you look at a lot of digital leaders like Apple, Uber, Netflix or Spotify, they offer the same experience irrespective of what country you are in. So the experience we give a customer in Mexico will be the same experience as they will want in Chile or Peru.

"To strengthen our customer relationships in Latin America, we're really investing in CRM and analytics. We are currently launching a new front-end CRM platform in our branches starting in Chile. This new platform enables sales officers to have a more natural conversation with customers and more readily identify opportunities to help them become better off or deepen the relationship with clients."

"Some of the screens have been simplified for sales officers, so they can see at a glance if a customer has a complaint, if they have a good credit rating, if they have a pre-approved offer, or what assets and liabilities the customer has.

"The sales officer can also tell if the customer is using our online and mobile banking service and whether they are primary customers. This means the sales officer has a much more natural conversation with the client," Madge adds.

"Our new CRM platform ties into our analytics platform. We're spending a lot of time in the bank focusing on analytics and working with fintechs in the area of credit decisioning and using non-traditional forms of data for credit decisioning, collections and fraud management."

A big digital initiative for Scotia is its new online and mobile banking offering that is going live in Mexico, followed by the Caribbean and Panama. Chile, Colombia and Peru will follow after that.

Madge says that the key to developing deeper relationships with customers is to make it easier for them to bank with the bank. So it has simplified every customer journey from log-in to paying bills and checking balances to make everything very easy.

As part of this, it has made a major investment in consulting customers and researching their journeys.

Scotiabank Canada has recently introduced Touch ID and its Android equivalent for mobile banking. It will use the same technology as Scotiabank Canada to roll out fingerprint authentication into international markets.

"Number one is about the customers becoming more digital and their expectations being set by digital leaders such as Uber.

"Also there is 100% mobile phone penetration and over 50% smartphone penetration in Latin America, which is also the fastest-growing internet population in the world and has active social media.

"Latin American digital transactions have been growing at 40%, driven by Uber, Spotify and online retailers. So the consumer digital experience is very important to us, as we think about how fast we need to go," Madge says.

"By digitising our processes, we can lower our cost to serve. The cost of a digital transaction is a couple of percent of the cost of a branch transaction, so it's very cost-effective for us to invest in digital channels to improve the customer experience."

"We are offering digital product sales in Latin America primarily in Chile, which is our most digital market in the region, Colombia, Peru, and Mexico. Later this year, we will be accelerating digital sales in Mexico.

"Some products such as pre-approved loans or credit cards or credit line increases are very natural candidates for selling through digital channels – you can do these largely via digital. So we're putting a lot of focus on our digital sales agenda," Madge continues.

"In Canada, we've been setting up digital factories to bring together IT, risk, and compliance teams to re-engineer our processes with our digital sales agenda in mind. These digital factories will feed into what we're doing in Latin America." ■

Customer-centricity at the heart of Toronto Dominion's strategy

From P2P payments and wearables to the Internet of Things and the blockchain, senior executives at Toronto Dominion talk to **Robin Arnfield** about how the North American bank is exploring emerging payment technologies while keeping customers at the heart of the proposition

"We see emerging technologies in the banking sphere as a transformative arena for us to deepen our relationships with clients," Hisham Salama, Toronto Dominion (TD)'s head of digital payments tells *RBI*.

"TD wants to be very convenient for our customers – this is a core part of who we are at TD. We always try to ensure our technology innovation has a customer-centric approach. We evaluate the spectrum of what technology is emerging and what is actually available, but we wouldn't necessarily offer it to our customers."

Salama has worked for TD since 2012, initially covering digital banking security, and for the last two years emerging and digital payments. He had held various roles in the digital space at Bank of America in the previous seven years.

"When a new piece of technology emerges and comes across the desk of someone at TD, we generally want to run a proof of concept to try it out," says Salama.

"This is where our technology partners such as (US-based IT firm) Cisco are great in helping to enable these ideas. As head of the digital payments team, my first issue to solve is: can this device make a payment?"

Salama says that TD spends a lot of time talking to customer focus groups when it designs a new payment technology.

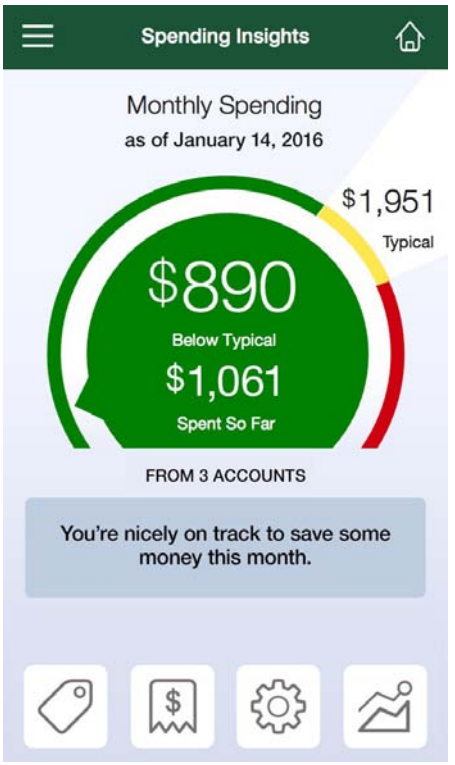
"We're finding from these discussions with clients that people are using online and mobile banking so differently – there are things you use your mobile phone for and things you use your PC for.

"So the products we're creating are all about being customer-centric – what do you need to have on a mobile device versus what do you need on an online platform for PCs and laptops?"

From an omnichannel perspective, TD is finding that consumers are migrating to 'mobile first'.

"Through hours of discussions with our customers and looking at data, we saw that our customers are very mobile-focused," says Salama.

"So this is why we partnered with [US-based neo-bank] Moven on our mobile-only TD MySpend personal financial management (PFM) app."



Wearables

The Apple Watch provides an example of a technology that TD immediately knew it had to participate in, Salama says.

"We knew from speaking with our customers and doing market research that wearables was a space we wanted to play in from day one," he says.

In Canada, only TD's mobile banking app is available on the Apple Watch, whereas customers of its US subsidiary TD Bank can make payments via Apple Pay using Apple's wearable device. In 2015, TD carried out a contactless NFC payments trial in Canada involving the Nymi Band, a wearable smartband that uses the wearer's heartbeat to authenticate transactions.

"We were able to carry out multiple payments as a proof of concept using the Nymi Band," says Salama.

"So now we're looking at Nymi's technology and holding internal discussions with our innovation team to determine what we want to move forward with."

TD's pilot only involved using one payment card on Nymi Band.

"Consumer expectations are going to change in the future so, as rewards and loyalty become integral to wearables, consumers will want the ability to switch payment cards," says Salama.

"We need to ensure we offer technology that is very flexible and that anything we put into the market meets consumer expectations such as the ability to use multiple payment and loyalty cards on wearables."

Salama says that TD is looking at peer-to-peer (P2P) payments, for example embedding P2P transfers within social media.

"We at TD continue to evaluate what is happening in areas such as loyalty gifting and money movement, and, when we find the right product to deliver to our customers, we will do so," he says.

Ugo Wallet a Canadian open mobile wallet in which TD participates, already offers a P2P transfer capability to its wallet-holders, Salama notes. TD customers can load their TD credit cards in the NFC-based wallet, which is offered by Ugo Mobile Solutions.

Like other banks, TD is following developments with Faster Payments, Salama says. Both Canada and the US are among countries which plan to migrate their payment systems to Faster Payments.

"Globally, as ISO 20022 [the global payments messaging standard] becomes mandated and a common centrepiece, every market will be looking at adopting Faster Payments," Salama says.

"Every bank I've spoken to around the world is keeping an eye on Faster Payments."

TD is exploring the potential of offering cardless mobile ATM withdrawals in Canada and the US, says Salama. "We will embed mobile ATM access into our mobile banking app," he says.

In March 2016, TD became the first Canadian bank to use the host card emulation (HCE)-based Visa Tokenisation Service in its new Android mobile payments app. RBC, by contrast, uses proprietary tokenisation technology in its mobile payments app.

"Tokenisation provided by a card network such as Visa is now the de facto standard," Salama says.

In a tokenisation scheme, a token is used to represent a card number at the point of sale, with the actual card information being stored in the cloud by the issuer.

In April 2016, TD launched its TD MySpend app in Canada, based on its collaboration with Moven. In December 2014, TD signed an agreement for the exclusive Canadian rights to Moven's PFM app.

"We see TD MySpend as an easy way for clients to manage their finances," says Salama.

"It is coupled very closely with the actual payments that customers make from their TD accounts. Unlike traditional money management software, when a client registers for TD MySpend, they don't enter any information manually. We pull in all their transactions over a 13-month timeframe and do all the analysis for them. Also, we provide them with visual depictions of how they are performing and trending on a month-over-month basis."

TD MySpend is mobile-only. "The client is walking down the street and needs to know if they can afford a new jacket," Salama says.

"With one touch into the app, they see a visual and can make a decision instantly. Also, every time they use a TD credit or debit card or do an ATM transaction, they get a real-time anti-fraud notification within milliseconds. We've had very enthusiastic feedback on MySpend on Google Play and the Apple App Store."

In September 2015, TD signed an exclusive Canadian agreement with tech firm Flybits to provide TD's Canadian mobile banking customers with more personalised experiences.

Flybits' cloud-based software enables mobile apps to deliver contextual experiences to each user, including personalised financial advice and relevant content and services.

"A focus for TD's digital roadmap is to create more intuitive, personalised experiences that make customers' lives simpler," says Rizwan Khalfan, TD's senior vice-president and chief digital officer.

TD is taking a great interest in the Internet of Things (IoT).

"The Internet of Things ties back to consumers' day-to-day life, and there are banking and payment needs in every-day life," says Salama.

"For example, your smart fridge can tell you that you need to buy more milk, or you manage your Netflix account which has your card on file from your smart TV."

"As the IoT takes off, we want to be there for our clients," Jeff Martin, TD's CIO for channels, says.

"Once IoT technology grows, the security and trust offered by TD will really come into play," says Salama.

"We could tell customers: 'Sure, you're buying this new smart appliance with a payment capability, and we will be able to protect you.'

"The phrase that fits best in IoT is 'connected commerce'; this is how the world is evolving. Ten years from now, every device and every utility that you use will be connected to you."

Innovation labs

"Most banks have an innovation unit, but we are taking a different approach," says Salama.

"Instead of having just one innovation bet, we have multiple bets. We have different minds from very diverse demographics examining different types of technology. Having these different demographics in our labs is important, as they will be thinking about different problems to solve, since all our customers are not the same."

In 2014, TD established the TD Lab at Communitech, a technology hub based in Ontario's high-tech Waterloo region, which involves students from local universities seconded to work with TD staff. The Waterloo area is home to some of Canada's most innovative high-tech companies and University researchers.

"We created the TD Lab at Communitech to get closer to the startup community," says Martin.

"We've been very successful at using the Lab to understand the startups' methodology, and use their methodology for exploring ideas and proof of concept around customer experience."

The TD Lab did an IoT proof of concept involving linking Nest thermostats to a TD mobile app.

"The idea was that you could not only control the thermostat via the mobile app but also see what the savings would be by turning down the thermostat and put these savings into your retirement plan," says Martin.

"This is an example of how banking could connect with the IoT."

Since January 2016, TD has been partnering with Cisco on technology solutions targeting customer and employee experience in Cisco's Toronto Innovation Centre.

"With Cisco, we are partnering with a major IT firm which is very innovative. We are working with them on smart buildings, call centre technologies, employee mobility and, especially, the IoT," says Martin.

"We also have the Waterloo Region Tech Centre which is an accelerator enabling TD employees to bring new ideas to market in a fast way," says Salama.

"We created the Waterloo Region Tech Centre with developers in mind, so it's very unbank-like. The Waterloo Region Tech Centre is leveraging the ecosystem of talent in the Waterloo region to build innovative digital systems for TD," says Martin.

"We want to bring quickly products that the Tech Centre team develops to our customers, get feedback from customers and essentially co-design the products with them."

One example is a family allowance test app which helps TD customers to teach their children about responsible money management. The app was originally developed by the TD Lab at Communitech.

"We solicit ideas from our entire workforce, and one suggestion was for a banking app for game consoles or the Apple TV," says Martin.

"The TD Lab then built a proof of concept for a TV set-top box, but decided that you wouldn't do your banking on a set-top, since you can bank on your phone.

"Then they thought parents might want to teach their young children about financial literacy using set-top boxes. Eventually, this turned into the Family Allowance test app for Android- and iOS-based phones, which is run out of the Waterloo Region Tech Centre."

In September 2015, TD joined a consortium led by US software firm R3 which is exploring how blockchain technology will shape the financial services industry. Currently, the R3 consortium comprises 42 global banks.

Originally created to record Bitcoin transactions, the blockchain is a decentralised ledger, verified and shared by a global computer network, which can be used to exchange data, including commodities or currencies, without a centralised clearing house.

According to the Aite Group's *Blockchain: What Is It Good for? Absolutely Something* report, the blockchain has great potential to disrupt many aspects of financial services by lowering costs, reducing barriers to entry, supporting new products and services, and disintermediating players that have been central for many years.

In January 2016, TD was one of 11 banks belonging to the R3 consortium which carried out a test involving the transfer of virtual currency to each other via the blockchain without a centralised third party.

"At TD, we view the blockchain as an important new innovation that holds great promise, but is still in the very early stages of its evolution," Chris Owen, vice-president, enterprise platforms, TD Bank Group, says.

"Over the last two years, TD has run a number of successful test cases and pilots that have brought notable efficiencies to several of our existing products and processes.

"But what is most exciting about blockchain technology is its potential to create new markets and enable ways of doing things we haven't yet imagined. That said, much of the benefit associated with blockchain requires external engagement." ■

Brazil's digital challengers ramp up the competition

Brazilian digital-only startup Banco Original and mobile-only credit card issuer Nubank hope to benefit from Brazilians' love affair with smartphones and challenge incumbent players. These new entrants are disrupting the status quo and giving the big banks something to worry about. Robin Arnfield reports

Brazil is the world's fourth-largest smartphone market with an installed base of 70 million smartphones in 2014. According to a study by Brazilian banking association Febraban (Federação Brasileira de Bancos), internet and mobile banking accounted for 52% of total Brazilian banking transactions in 2014.

"The digital-only banking space is heating up in Brazil," Lindsay Lehr, senior director at US-based Americas Market Intelligence, tells *RBI*.

"This is highly relevant, since the top six Brazilian banks control about 70% of all bank assets, and the top four control 80% of deposits and credit cards issued."

"Digital banking is advancing in Latin America," says Juan Mazzini, a senior analyst, financial services, at US-based consultancy Celent.

"In a Latin American bank and fintech survey Celent carried out recently, 100% of the participants recognised that a scenario where all financial products get digitised, needs to be addressed sometime in the next seven years, and 59% believe this scenario needs to be addressed immediately.

"There was also a general consensus among survey respondents that most Latin American banks are entering digital late, and over 70% of respondents believe the predominant threat of competition won't come from incumbent banks," says Mazzini.

Whereas Nubank only offers credit cards, Banco Original's vision is to be Latin America's first 100% digital universal bank, Mazzini notes.

"Celent's view is that incumbent banks, particularly those which are direct competitors to Banco Original, will rethink their investments in digital, as the threat is now real," he says.

"Banco Original isn't entering the market to play minor league, but to challenge the big players.

"Celent also expects to see other [incumbent] banks create separate digital institutions, as, for some of the larger banks, the rapid transformation required is a barrier too high to jump and they may be better off starting a new digital operation on the side."

Banco Original

Banco Original, a subsidiary of Brazilian holding company J&F Investimentos, launched Brazil's first digital-only consumer banking platform in March 2016 offering current accounts, credit cards earning cashback, and seven different investment products. Its publicity campaign features Jamaican athlete Usain Bolt.

The bank, which targets customers with monthly income of over BRL7,000 ($1,996), has no branches, although it does operate a call centre.

"Our offer is intended to simplify customers' management of their finances," says Marcos Lacerda, Banco Original's chief marketing officer.

"Customers open their accounts using their smartphone, and are able to carry out transactions using voice commands and deposit cheques using their smartphones. They have access to a personal financial management (PFM) programme providing a timeline of their transactions grouped in different categories."

Banco Original is the result of a 2011 merger between Banco JBS, a J&F subsidiary providing loans to agribusinesses, and Brazilian retail lender Banco Matone. In 2013, Banco Original added corporate banking to its existing agribusiness.

Right from the start, it was Banco Original's vision to become a digital-only bank. Its digital banking project began in 2013 under the direction of Henrique Meirelles, chairman of J&F Investimentos and former president of Brazil's Central Bank.

"The total amount of our investment in our digital banking platform is around BRL600m," says Lacerda.

Innovation

Banco Original has three approaches to innovation.

"Firstly, we partner with a technology startup accelerator in the US," says Lacerda.

"When we identify a project which meets our objectives, we make an investment in the technology so we can develop and use it.

"Secondly, we make acquisitions such as the 51% stake we took in PicPay, a mobile wallet similar to Apple Pay, last year.

"Thirdly, we develop products and services which add value to Banco Original and help improve its relationship with its clients."

Meirelles was quoted by Reuters in March 2016 as saying that Banco Original expects returns on its retail banking unit to match those at the bank's corporate and agribusiness segments within four years.

He said he expected the retail division to post 'acceptable' returns by 2018 and 'attractive and very positive' ones by the end of the decade, according to Reuters.

Lacerda estimates that Banco Original will sign up 100,000 customers in its first year of operation and 250,000 in 2017.

"We are targeting the growing demand among banked consumers to communicate with their banks through digital channels," he says.

In a December 2015, Fitch Ratings said that it views Banco Original's "plan to develop a retail bank focused on high-end individuals as an ambitious undertaking that will require disciplined risk management, given the challenging operating environment.

"The bank's revamped management team is composed of professionals with vast experience in leading local financial institutions, which will be essential for the successful implementation of the bank's plan to build a solid franchise and become a relevant mid-sized bank in the Brazilian market."

Open API

"Banco Original has an open application programming interface (API) banking platform," says Mazzini.

"This open platform enables fintech companies to access Banco Original's APIs and datasets easily, and enables the bank to react to a changing and complex ecosystem."

Mazzini says that Banco Original is one of the rare cases where a 100% digital bank has obtained its platform from a vendor, US-based Technisys. Other digital-only banks around the world such as Mexico's Bankaool

or Germany's Fidor opted to build their own platform instead of buying it from a third-party vendor.

Nubank

São Paulo-based Nubank offers an international MasterCard-branded Platinum credit card without any fees and with lower-than-average interest rates, an attractive feature as Brazil has some of the highest credit card interest rates in the world.

"Average Brazilian annual credit card interest rates reached 99% in November 2015, with some charging rates as high as 415.3%," says Mazzini.

As of May 2016, Nubank's revolving credit interest rates ranged from 2.75% to 12% per month.

Americas Market Intelligence's Lehr says Nubank's offer is 'very interesting to Brazilians who are dealing with high debt levels, inflation, and unemployment. It also has the advantage of being an international card'.

Like Nubank's card, Banco Original's two MasterCard-branded credit cards, a Platinum card and a Black card, can be used internationally. Lehr says that 80% of credit cards issued in Brazil are enabled for domestic purchases only.

"The credit cards issued by Nubank and Banco Original are interesting, since Bradesco, Banco do Brasil and Caixa Econômica Federal have all become highly committed to issuing the Elo card, a domestic card scheme established in 2011," says Lehr.

"Elo has been steadily cannibalising Visa cards as these issuers push out Elo cards, and new, digital-only banks could be interesting partners for Visa and MasterCard to defend their share."

Smartphone app

Customers can only manage their Nubank card using a smartphone app. Nubank's app allows customers to apply for a card, and, once approved, activate, block and unblock their card, manage and pay their bills, increase and decrease their credit limits, and see all purchase information in real time.

"Nubank is hoping to provide better customer service than incumbent banks," says Mazzini.

"Brazilian banks are among the companies that generate the most customer complaints in Brazil.

Nubank sees youth as an important demographic, and is currently targeting people who can afford smartphones and already have credit cards from Brazilian banks.

Over time, it expects to expand its credit modelling to reach people with more varied credit profiles."

Nubank says that, between its app's launch in September 2014 and April 2016, around two million people had applied for its card, including rejected applicants, successful applicants and people on a waiting list for a card while their credit history is checked.

As at January 2016, Nubank's cardholders had carried out over eight million transactions in 140 countries. Nubank's growth has occurred largely through recommendations by customers, the issuer says.

"The majority of our users are in the A and B social classes, although we don't require a minimum income," says a Nubank spokesperson.

"Around 80% of our users are under 35 years old."

Nubank says it has developed an advanced data science infrastructure to enable it to process and make decisions about card applications.

"We do all our own development internally," the spokesperson says. "Our team of 300 people includes over 10 data scientists and over 40 engineers."

Investments

In April 2016, Nubank signed an agreement with Goldman Sachs for loans totalling around $50m to finance its credit card receivables portfolio.

The loans consist of a $25m Senior Secured Revolving Credit Facility and a BRL100m Senior Secured Revolving Credit Facility through Nubank's proprietary securitisation.

Nubank had previously raised almost $100m in its four equity fund-raising rounds led by Sequoia Capital, Tiger Global, Founders Fund, Kaszek Ventures and QED Investors since its launch in 2013. ■

Where are the women?

Where are women in the banking sector? France and Norway are the two rising stars of gender equality. Women are reaching top positions in Spain but are forgotten on boards of directors. Germany is still lagging behind while Switzerland and Ireland finish last. **Jessica Longley** investigates

Time and time again, the benefits of gender diversity in the workplace have been praised but women are still having trouble breaking through the glass ceiling. This is especially the case in the banking sector where progress has been grindingly slow in recent years.

In recent decades, efforts have been made in an attempt to bridge the inequality separating men and women. In the pursuit of increasing female representation on boards, some countries have chosen to impose gender quotas to top businesses whilst others have decided to follow a more voluntary approach where companies vow to increase gender equality and set their own targets.

Are gender quotas the best approach to tackle the lack of gender diversity in the workplace? Which countries are faring best and who are being left behind in terms of gender equality?

To offer some insight into this problem of long standing and provide some potential remedies, *RBI* conducted its own research into the subject. The results of this report are published and analysed in this article.

The Top 10

To get an overall view of the situation in Europe, *RBI* sampled the four biggest banks by asset size in 10 European countries: France, UK, Germany, Spain, Italy, Norway, Ireland, Netherlands, Switzerland and Belgium.

RBI acquired data on the members of the board of directors and executive committees of these banks in the aim of filing a country-per-country profile of women representation in the banking sector and get an overall picture of where the European banking sector is heading.

To understand where the problem stems from, *RBI* also examined the gender of the people at the top, in charge of the important decisions: the CEOs and chairmen of these banks.

Europe's stagger towards gender equality

There are a number of major trends present in the European banking sector. Some observations point towards a positive and progressive step towards gender equality while others show a less clear picture with more nuanced results.

If we can be sure of one thing, it is that there is still a recurring problem of women failing to reach the top, not being put in charge of executive decisions and not getting promoted to positions of high standing (CEO and chairman). Some progress has however been made on the board of directors, with a high percentage of women being present on these boards across Europe.

The average proportion of women on the board of directors of the top banks across our sample is 30.43%. Reaching the 30% target set by many as a guideline is a good indicator that we are heading in the right direction and starting to see change in the banking sector. Nevertheless, large discrepancies can be observed from one country to the next as the median is set at 26.32%.

In terms of gender diversity on the board of directors, France and Norway are leading the way with women representing on average respectively 43.38% and 47.28% of their top banks' board of directors. At the bottom, with some catching up to do, Spain and Switzerland's comparable figures are roughly one half of the leading countries, standing respectively at 22.03% and 22.69%.

As for gender diversity on the executive committee, Norway and Spain score best. Women represent respectively 15.47% and 18.53% of the executive committee. At the opposite end, women in Germany and Ireland reach a measly 6.94% and 7.04% respectively on executive committees of top banks.

The average percentage of women on the executive committee of the top banks is 11.35%. These numbers are considerably lower, nearly three times smaller, than the numbers found for the board of directors. These observations unveil the extent of the problem as it applies not to a small, contained group of European countries but to the whole of Europe.

Alarmingly, only 30% of European countries in this sample have at least one woman in the executive committee in all of their top banks.

Germany, lagging behind

Back in 2013, an *RBI* report on gender equality in the banking sector ranked Germany at the bottom of the list, with a meagre 4.9% of women on the executive committee of Germany's top banks. A harsh light was shone onto Deutsche Bank in particular, with not one woman present on their executive committee. However, women in Deutsche Bank had a better rep-

GENDER EQUALITY (NUMBER OF WOMEN ON THE EXECUTIVE COMMITTEE) FOR BANKS

1st	UBI Banca (Italy)
2nd	Swedbank (Norway)
3rd	BPCE (France)
4th	Banco Santander (Spain)
5th	Belfius (Belgium)
Joint 6th	RBS Banking Group (UK)
Joint 6th	Caixabank (Spain)
Joint 8th	KBC Bank (Belgium)
Joint 8th	UBS (Switzerland)
Joint 8th	BBVA (Spain)
Joint 8th	KFw Bankgruppe (Germany)

Source: Timetric

resentation in slightly lower and less powerful positions, with 40% of their board of directors made up of women.

Since then, Germany is still lagging behind and is bottom for gender equality in respect of the executive committee, with a modest 6.94% of women on the executive committee of their top banks. Indeed two major banks, Commerzbank and DZ Bank, have no women on their executive committee.

Germany fares only slightly better at board level, placing fifth but still boasts no female CEO or chairwomen in its four biggest banks. This is an alarming phenomenon in the banking sector whereas women seem to plateau at a certain level –the board of directors – and cannot breakdown the barriers to reach the top of the career ladder – executive committee, chairwoman or CEO.

In January 2016, Germany implemented a 30% quota for the top 100 publicly traded companies. These include two of Germany's top four banks, Deutsche Bank and Commerzbank. Both of these have successfully surpassed the 30% quota reinforced on the board of directors.

GENDER EQUALITY (NUMBER OF WOMEN ON THE BOARD OF DIRECTORS) FOR BANKS

1st	Société Générale (France)
2nd	SEB (Norway)
Joint 3rd	BNP Paribas (France)
Joint 3rd	ABN Amro (Netherlands)
5th	Swedbank (Norway)
6th	Nordea (Norway)
7th	Crédit Agricole (France)
8th	ING Group (Netherlands, Belgium)
Joint 9th	Deutsche Bank (Germany)
Joint 9th	Intesa Sanpaolo (Italy)

Source: Timetric

France and Norway leading the way

Norway and France are topping the charts in gender equality both in terms of the board of directors and the executive committee. Three of Norway's top banks and three of France's top banks are in the ten best banks in Europe for gender equality on the board of directors and both countries have one of their top banks ranking in the top ten banks in Europe for gender equality on the executive committee.

Norway and France are also leading the way in gender equality, placing in first and second place respectively in the ten best countries in Europe for gender equality on boards of directors while they are second and third respectively in the ten best countries in Europe for gender equality on executive committees.

Since *RBI*'s 2013 feature, France has seen considerable improvements in the representation of women in its banking sector. In 2013, France was also leading the way in gender equality with 30.9% of France's top banks' board members women. Banks in France have not stopped exceeding themselves over the years, with women currently representing 43.38% of the members on the board of directors in these top banks.

So, what makes France and Norway thrive?

Well, gender quotas might just be the answer. Norway put in place quotas in 2003 with a target of 40% of women on the board of directors of top companies to be reached by 2008. France also recently implemented quotas in 2010 with a 40% target to be achieved by 2016 for public-limited companies.

Norway has successfully reached and surpassed its target. France has made substantial progress and is on its way to reaching its target with two of their top banks having already achieved it. BPCE and Credit Agricole still have to catch up. Nevertheless, Credit Agricole is very close to achieving this 40% target and both banks have over 30% of women on their board of directors.

Norway is a particular rising star when it comes to gender equality, being the only European country out of the sample to have two female CEOs, yet alone one.

Spain, the inbetweener

Spain is an intriguing case. It is hard to pinpoint the country's stance on gender equality, Spain being on both ends of the spectrum. On the one hand, Spain is the top European country in terms of gender equality on the executive committee while, on the other hand, it is the worst European country in terms of gender equality on the board of directors.

Spain has made the most significant progress compared to other European countries when it comes to the representation of women at the top. Three of its top banks appear in the top ten banks for gender equality on executive committees and it is one of the countries with the biggest number of chairwomen. Although it is having trouble achieving gender equality on the boards of directors, it seems Spain has entrusted more women with the executive decisions than any other European country in our sample.

Furthermore, Spain has made some progress since 2013. In 2013, the percentage of female board members stood at 18.7%. Three years later, this number has increased to 22.03%.

GENDER EQUALITY (NUMBER OF WOMEN ON THE EXECUTIVE COMMITTEE) BY COUNTRY

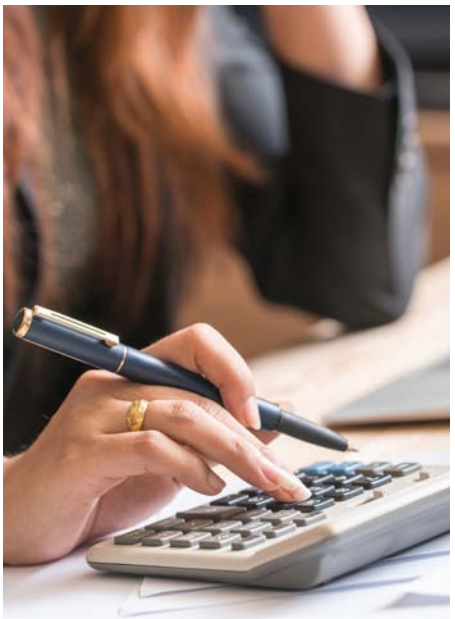
1st	Spain
2nd	Norway
3rd	France
4th	Italy
5th	UK
6th	Netherlands
7th	Belgium
8th	Switzerland
9th	Ireland
10th	Germany

Source: Timetric

GENDER EQUALITY (NUMBER OF WOMEN ON THE BOARD OF DIRECTORS) BY COUNTRY

1st	Norway
2nd	France
3rd	Netherlands
4th	Italy
5th	Germany
6th	Belgium
7th	Ireland
8th	UK
9th	Switzerland
10th	Spain

Source: Timetric



Spain introduced in 2007 a recommended quota of 40% to be reached by 2015 via the Gender Equality Act. This quota, however, is a recommendation rather than an obligation and applies only to public-limited companies with more than 250 employees.

None of Spain's top banks have achieved this target, Banco Santander reaching the highest percentage of women on their board of directors at 31.25%.

Ranking bottom

Switzerland and Ireland rank bottom. Both countries feature no women as chairwoman or CEO in any of their top banks. Furthermore, both countries implemented quotas that top banks have not respected. In Switzerland, gender quotas were introduced in 2006 with a target of 30% to be achieved by 2011. It is now 2016 and not one of Switzerland's top banks have come close to that target, UBS being the top bank with the most women on its board: 25%.

A similar case can be observed in Ireland where quotas were implemented in 2004 with a target of 40% to be achieved at an undetermined time.

However, none of Ireland's top banks have reached that target although two of Switzerland's top banks have managed to get 33.33% of women on their board of directors.

For these countries, progress remains to be made.

Which way forward now?

The conclusive image shown by this research is one of an invisible barrier that stops women getting from the board of directors to the executive committee.

For all countries in the sample, with the exception of Spain, the percentage of women on the executive committee is at least twice as small as the percentage of women on the board of directors.

Spain, on the other hand, has a similar percentage of women on the board of directors and on the executive committee of their top banks, respectively 22.03% and 18.53%.

Another trend uncovered is the few number of women present in the top two positions, i.e. chairwoman and CEO. Norway is the only country with female CEOs running their top banks, while Italy, Spain and the Netherlands are the only countries in our sample to have chairwomen in their top banks.

How can we tackle these two problems?

For some countries, such as Norway, France and to some extent Spain, quotas have ensured that women have a place in the decision branches of the banking sector. It is no surprise that two countries coming out on top in terms of gender equality are two countries that actually implemented gender quotas.

Nonetheless, it cannot be ignored that Switzerland and Ireland have implemented quotas somewhat unsuccessfully, not reaching their target.

However, it could be argued in favour of quotas that Ireland should reinforce quotas legally to insure a positive result.

The UK, where there are no quotas, is ranked as one of the worst countries for gender equality; proof that quotas may force businesses into action when simple initiative is not enough.

Across our sample of European countries, gender quotas have largely ensured that the number of women on board of directors has not stopped growing.

Moreover, when quotas are implemented, they often only apply to the board of directors.

The large discrepancy observed between numbers of women on board of directors and executive committees may be explained by this.

If we were to implement gender quotas on executive committees as well as boards of directors, the gap could potentially close and the banking sector may start to look more attractive and with leadership positions attainable to women.

The question is, who will dare to make the first step? ■

■ BREAKDOWN OF WOMAN IN SENIOR BANKING POSITIONS BY COUNTRY (%)

	Percentage of women on board of directors	Percentage of women on executive committee	Percentage of Chairwomen	Percentage of female CEOs	Worst Bank for female representation	Best bank for female representation
France	43.38%	14.74%	0%	0%	BPCE	Société Générale
UK	25.29%	11.24%	0%	0%	Lloyds	HSBC
Italy	27.66%	12.5%	25%	0%	Banca Mediolanum	Intesa Sanpaolo
Spain	22.03%	18.53%	25%	0%	Bankia	Banco Santander
Germany	26.34%	6.94%	0%	0%	KFw Bankgruppe	Deutsche Bank
Norway	47.28%	15.47%	0%	66.66%	Nordea	SEB
Ireland	25.83%	7.04	0%	0%	Bank of Ireland	N/A
Switzerland	22.69%	8.33%	0%	0%	Julius Baer	UBS
Netherlands	37.5%	9.52%	33.33%	0%	Rabobank	ABN Amro
Belgium	26.31%	9.17%	0%	0%	Belfius	ING
Total Average	30.43%	11.35%	8.33%	6.66%		
Median	26.32%	10.38%	0%	0%		

Source: Timetric

Fintechs: Friend or foe in the world of financial services?

London has gained a reputation as a leading fintech hub, hosting more and more innovative technology start-ups but can they be considered as friends or enemies of financial services? This is exactly what June's debate from the Digital Banking Club (TDBC) set to find out. **Jessica Longley** reports on the action

Hosted at the prestigious Law Society in London, and sponsored by global leader of mobile capture and identity verification software Mitek, June's TDBC debate took a slightly more traditional approach.

Sophie Guibaud, George Depastas and Jon Hall argued for the motion against a team comprising Simon Cadbury, Roy Vella and David Parker. The motion: fintech, friend or foe? Guibaud, vice-president of European expansion at Fidor, kicked off the debate in support of the motion.

She argued that in spite of a rocky start, the relationship between fintechs and banks have evolved and continue to evolve – with the arrival of PSD2 – into a more symbiotic one.

Fintechs and banks, a symbiotic relationship?

Guibaud explained how fintechs were born, painting a picture of a change in consumer behaviour over the past 20 years with the arrival of the internet and smartphones, allowing customers to be permanently connected.

This led to the emergence of new agile companies as banks struggled to keep up with the change.

"Banks took a while to adapt as quickly to change as other sectors for a few reasons such as legacy and strict regulation. Organisations have a strong hierarchy and are not used to listening to what customers want.

"For fintechs, it is easier to swiftly develop new products and respond to customer needs because of their new business model and better customer experience," Guibaud explained.

She further outlined the banks' and fintechs' need for each other. On one hand, banks depend on fintechs to better connect with their customers and improve their understanding of their customer base. On the other, fintechs need the investment and brand that banks offer to assert themselves in the market.

Partnerships between the two entities can come in the form of affiliations or through the banks' use of fintechs' already-developed-and-tested technology.

Guibaud clarified: "Investments are a way for fintechs to reach out to other audiences that are not their main target audience.

"It is also a way to experiment as it's always easier to experiment under a new brand than under a 100-year-old brand."

She illustrated that 'the P2P lending partnership between Zopa and Metro Bank is a perfect example of fintechs and banks working together hand in hand. Zopa offers Metro Bank clients a service that the bank itself would not be able to offer'.

The end of the 'toothbrush era'

In response, Simon Cadbury, director of strategy and innovation at Intelligent Environments, made his case against the motion with five concise points.

Basing his arguments on research from PwC and McKinsey, he stated that fintechs are disruptive, steal profits, do not need banks and are a threat to the future of banking. As a result, the traditional players are left undecided and unsure of how to proceed.

He said: "We're undergoing a natural evolution. You can describe the previous two or three years as the 'toothbrush era', where fintechs have been taking one function and performing it considerably better than anyone else."

Cadbury clarified: "Fintechs are typically bound to be light, free from the burden of meddlesome systems and have smart unbundled business models. The fintechs' disruptive models can find great synergy in working together rather than bending over backwards to accommodate banks."

Not only can fintechs survive without banks, they are also threatening banks' profits as they start to encroach on the end-to-end value chain.

According to Cadbury: "The opposition might argue that only a small percentage of revenue is migrating to fintechs, but it should be the potential that is concerning them. Experts believe that 40-60% of global banking profits worth $1trn are at risk."

Cadbury expressed his fears that traditional banks are 'having their no-frills moment, just like the national airlines in the 1990s. They've had to accept lower profitability and remodel their proposition'.

He considered that banks are unprepared to face the second stage of advancement of fintechs. Indeed, the future of fintechs is expected to be propelled by the proposition of a launch that will create a central hub for fintechs called the marketplace bank.

Cadbury explained: "The marketplace banks will compete directly with the traditional banks on core banking services without the need to build all the products. And on this model, there's a very good chance that they will actually scale much more quickly than we've seen historically."

As Cadbury's speech came to an end, it was the turn of George Depastas, the head of

product and real-time analytics at Barclays, to point out the inaccuracies and supposedly false arguments found in Cadbury's speech.

"You've said that the essence of startups is disruption. This is so last year; creation is the new bloc.

"The big players in the market are not trying to chip-in the existing pipe, they are trying to create new markets," announced Depastas.

Indeed, Depastas is convinced that 'the pie is large enough to feed everyone. They don't have to kill each other'.

Banks and fintechs have complimentary sets of skills and resources that allow them to work together. Depastas called it co-competition: "Cooperation with some elements of healthy competition."

The huge potential for them to be and remain friends comes from, as Guibaud mentioned, two things.

"For one, fintechs need the funding, branding and established relationships the banks bring. The slow dinosaur banks on the other can benefit from the agile mindset and cutting-edge technology the fintechs offer," claimed Depastas.

Depastas further proved his point by admitting that very few startups have actually passed the 100,000 users threshold. He explained that these startups rely on banks' brands to provide their customers with the trust and loyalty they desperately need.

On the other hand, banks cannot survive if they do not jump on the digital wave: they understand the urgency of investing in fintechs.

In his closing statement, Depastas concluded that the $20bn investment in fintechs by banks reflected the confidence banks have in start-ups: "Fintechs have proven that essentially they want to participate in the wider ecosystem. They want to optimise processes and build on top of APIs."

Biscuits, piranhas or electronic cars?

Speaking for the opposition, David Parker, CEO of Polymath Consulting, and Roy Vella, digital expert and consultant, chose original and quirky analogies to express their opinions.

Parker dubbed banks the 'manufacturers of rich tea biscuits,' and introduced fintechs as the 'Tesco providing the rich tea biscuits"'to explain how profits depend on who knows the customer best and who controls the margins.

In short, Parker showed the dependence of banks on fintechs for customer data.

He stated: "Fintechs, with all their weird and wonderful logos, are building brands and emotional relationships to their customer base. Banks are purely manufacturers; they have no understanding of where the market is going and no idea what the consumer is looking for in the future."

Parker argued that fintechs could not be considered friendly when they were effectively taking profits away from the banks. "A profit pie was mentioned. It's a bit like a balloon. I don't believe that profits go up and up until that balloon explodes. There is only a certain amount of profit available," he said.

According to Parker, fintechs are now serving the profitable customers of that profit pie while the banks are left with the unprofitable customers: "[The banks] are left with the commodity-based wholesale business."

As a dramatic conclusion to his speech, Parker specified: "This lack of real customer insight therefore becomes self-fulfilling.

"The less you understand about them today, the less you understand about them tomorrow and the less you know about them in the future. Fintechs will leave with 60% of your profits in the pocket."

Vella backed Parker's arguments up by creating his very own analogy around sea animals. He first described the paradigm shift financial players are currently facing.

In this highly connected world where the global digital participation is unprecedented, there is "in Murdoch's words, a significant dynamic of the fast beating the slow," explained Vella.

"We are no longer in waters that worry about great white sharks, but rather we are now scared of the little players taking little bites. Piranhas are cute when you see a picture of them, but once you zoom in on the teeth, they become threatening," admitted Vella, insinuating that piranhas are the fintechs and great white sharks are the banks.

Vella concluded that we no longer need a middleman, such as the bank, in a world where we have diversity and choice.

Jon Hall, in favour of the motion, fought back the opposition by playing into their analogy game.

He decided to compare fintechs to Tesla, arguing that Tesla is a company that turned electric cars from geeky to cool and accessible.

Hall explained that fintechs are to financial services what Tesla is to the car industry: appealing to a niche market and developing through innovation and understanding of the customer.

Hall commented: "Fundamentally, fintechs are advancing in gaps. They are dealing with underserved markets, they are listening to what customers want and they are there responding to customer needs. It is about a social purpose more than a numbers game."

Hall disputed that by working with financial services, fintechs were demonstrating their maturity, sustainability and scalability.

He believed the recipe for success for banks was a combination of two things: "Financial services need to be emotional and rational as well. They need to perform and they need to look good."

The bloodbath

As moderator Douglas Blakey, group editor of consumer finance titles at Timetric, opened up the floor to questions. The panel got their claws out to fight it out one last time before voting on the motion.

When asked about how fintechs could be considered foe when they need such high capital requirements to survive, Vella replied: "The aspect that you're missing is time.

"When it is explained that there is a potential to hack into the $1trn industry and that all the current players are dinosaurs, there is money to be had."

An audience member reiterated the question: "Are they a foe now or in 20 years' time?"

Vella took up the question once more: "You stole my thunder! They may appear to be friendly at the moment, but time is the factor that people are not considering."

Guibaud retorted: "Fintechs need larger players over time. If you don't have the capital, you need to stop.

"A lot of investment money needs to be spent on marketing to actually reach out to people and build a customer base."

Another member of the audience added: "Let's assume it is 10 years from now. Describe what the world would look like after all these great partnerships."

"[Fintechs and banks] will be able to go

the extra step. Fintechs feel there is a gap in the market and can offer services that banks can't; such as loans to high risk customers," Guibaud replied.

Depastas regretted to say that it is 'hard to imagine the future in three years, even more so in 10'.

He stated: "You go to banks for their over all package. Insights, advice... Customers want specific offerings from fintechs but are still customers of the big banks."

Parker shut Depastas down by affirming: "Certain things are predictable. It's very simple: when someone gets good service and good products, they tend to go back.

"Banks will lose the customer relationship as fintechs gain that customer relationship."

Hall cut in to explain that 'the future will be more diverse, but I don't think it's a question of one or another. Banks need to be clear on what they are going to serve. Choice is going to be phenomenal'.

Meanwhile, Cadbury felt that 'banks cannot fulfil certain services that fintechs offer. It is slightly to their detriment'.

A member of the audience asked if innovation will bring the death of money licenses.

Parker purported that they are increasingly easier to get: "It is easier to buy it off a manufacturer. That is Tesco's attitude."

The aftermath

As the debate came to an end and as the results were about to be announced, a member of the audience added that the IT departments throughout large corporations are often the blockers of innovation.

The battle had been fought and the audience had made up their minds.

So, who is the clear winner? Prior to the debate, the voting stood at 84% for the motion in comparison to 16% against the motion.

After the debate, the second poll resulted with only 55% for the motion and a staggering 45% against the motion.

It was decided at the beginning of the debate that the winner would be based on the swing between the number of votes before and after the debate.

On that basis, the opponents of the motion won the debate, with a swing of 29%. ■

DEBATE PARTICIPANT PROFILES

FOR THE MOTION	AGAINST THE MOTION
George Depastas, head of product, real-time analytics, data products and platforms, Barclays	**Simon Cadbury, director of strategy and innovation, Intelligent Environments**
Depastas heads the real-time analytics product for Barclays Africa, driving the wider innovation agenda and working closely with start-ups, to deliver cutting edge dynamic customer experiences. Depastas comes from an engineering background, and has experience in the areas of digital user experience, business optimisation and innovation strategy.	Cadbury is a product marketer and strategist with 18 years' experience working for a range of major international brands. Cadbury's role is to work with Intelligent Environments' investors to set and deliver the company's mid- and long-term strategy, as well as overall responsibility for product development and management for Interact, the company's core product offering. Cadbury joined in 2013 from Lloyds Banking Group where he was responsible for payment technology, and also sat on the credit card division's leadership team. Prior to this he worked on the launches of a number of firsts in new technology: the Blackberry (BT Cellnet), BT Openzone (BT Retail), 3G Live! (Vodafone Australia) and Sky HD (BSKYB).
Sophie Guibaud, vice-president European expansion, Fidor	**David Parker, CEO, Polymath Consulting**
Guibaud started her career in investment banking in New York before joining a growth capital fund in Paris. Along with investing in startups, she advised them on their development strategy. However, wanting to be more involved in startup operations, she moved to London and was instrumental in launching HelloFresh, a Rocket Internet food subscription-based company. After heading product strategy and commercialisation at Bankable, a payment solutions company, she is now in charge of the European roll-out of Fidor.	Parker is founder and CEO of Polymath Consulting, which has now delivered over 50 projects for clients in prepaid cards and emerging payments. The company's current work includes projects in the Middle East, US, Asia, Africa and Europe. Parker has an in-depth knowledge of payments and payment cards and is known for his work with prepaid cards, mobile money/mobile wallets and M-pos. Parker has previously worked for companies such as the Gaming Bourse, the Pepper Corporation and Saatchi & Saatchi (Saudi Arabia).
Jon Hall, MD, Masthaven Bank	**Roy Vella, digital expert and consultant**
Hall will lead Masthaven Bank, which has unveiled plans to become a new UK retail bank with a launch planned for the summer of 2016. Hall joined Masthaven in January 2015 from Saffron Building Society where he had been CFO since August 2004, and subsequently CEO from 2011. Hall was part of the senior management teams with CT capital, a specialist mortgage lender and intermediary, Aviva and PwC, both in the UK and Bermuda.	Vella is a digital entrepreneur and independent consultant to brands such as Visa, Vodafone, GSMA, and small startups. Before offering his expertise at large, Vella served as leader of RBS global mobile banking efforts. Before this, he spent five years at PayPal, starting out as director of business development in USA merchant services before leading the mobile payments initiative across Europe. Prior to PayPal, Vella worked as VP of sales and marketing at 4charity, Inc., then as partner of Quantum Technology Ventures, a corporate VC firm focused on the storage industry.

Disruption as a force for change

Every week, it seems that there is a new entrant to the banking sector claiming to be 'disruptive'. However, is this really the case? Big banks do not appear to be heading anywhere. New research from PricewaterhouseCoopers (PwC) states that they well might. **Patrick Brusnahan** reports

Many experts have looked at the financial sector in its current state and decided that while banks are under threat, there is still time to move the ship away from the iceberg.

On this point, the report asks: "Have [banks] done this? So far, not really."

Bank inertia

While the report, entitled *The Future Shape of Banking in Europe*, gives credit to banks for progress on fronts such as regulation, legacy remediation, trust, customer service, and operational innovation, it claims that this has not been enough.

In the midst of a 'crisis in European banking', the sector has consistently missed its performance hurdle rates (meaning their average return on equity was less than their average cost of equity) by some way.

While some underpeformance can be attributed to one-off asset write-downs, fines restructuring charges, and the like, net economic spreads have stuck at around – 6% for the past two years.

The report posits that one reason for this is that Europe is overbanked. Europe has 130 large banks (over €30bn in assets) working in a €15.3trn marketplace. That equals one bank per €118bn of GDP. In contrast, there is one large bank per €302bn in the US, one per €214bn in Canada and one per €144bn in Australia.

As a result, cost-efficiency in the European market is not as high as in others. Cost-to-income is an average of 80%, compared to the global average of 65%.

The report states: "The bottom line is that there are too many banks in Europe, doing too much, in a structurally unfavourable market environment."

The vigour of the challenger

With all of this in mind, surely the market should not be encouraging new entrants to stake a claim.

On the contrary, there is a large amount of innovation and investment interest in the challenger sector. This interest is from new banking names to technology driven start-ups to existing firms encroaching on banking and payments.

This is growing at an alarming rate. Funding of fintech start-ups more than doubled in 2015, hitting $12.2bn in 2015 from $5.6bn a year before. Rather than sticking to their usual home territories of Silicon Valley and London's Canary Wharf, fintech firms are expanding to wherever they see opportunity. Asia-Pacific is now one of the fastest growing regions for fintech, astoundingly quadrupling their fintech investment in the last year.

PwC believe that the current situation will lead to one of three scenarios:

- The trend of multi-paced transformation continues: banks gradually adapt and consolidate, but not fast enough to prevent challengers from taking a chunk (the report states possibly 20%) of the market permanently;
- The trend might quicken and reach a tipping point. This means that the challengers become the incumbent and the current incumbents fade away or, at best, are reduced to a utility role. In this scenario, a new banking crisis and more public intervention is possible, or
- A third scenario, one that doesn't accept the opinion that incumbents and challengers need to be locked in permanent combat, is that a new 'symbiotic' relationship is formed. A new banking system will be formed where 'incumbent' and 'challenger' are redundant terms. This would lead the market to address collectively customer issues and contemporary challenges such as financial exclusion, under-funding of lifetime financial security, and under-investment in new infrastructure and productive capacity. A rather optimistic scenario.

Miles Kennedy, financial service partner at PwC and the report's co-author, told *RBI*: "The third of our possible scenarios is the most likely and the most positive of the three. It is not just wishful thinking; there is evidence to suggest that it is already underway. The combination of Brexit, ongoing economic weakness and the challenges faced by incumbents is likely to be a disrupter that only quickens the pace of change." ■

HOW ARE YOU CURRENTLY DEALING WITH FINTECH COMPANIES?

Do not know	7%
Other	9%
We acquire fintech companies	9%
We launch our own fintech subsidiaries	11%
We set up venture funds to fund fintech services	14%
We rebrand purchased fintech services	14%
We establish start-up programmes to incubate fintech companies	15%
We buy and sell services to fintech companies	22%
We do not deal with fintech	25%
We engage in joint partnerships with fintech companies	32%

Source: PwC

FINTECH

Lloyds rolls out mentoring scheme for fintech start-ups

Lloyds Banking Group has launched a new mentoring scheme to support startups in the financial technology space.

The scheme will help fintech startups benefit from knowledge sharing with the bank's experienced staff, including refining concepts to improve business models, the UK lender said. The scheme will involve participation of mentors from diverse areas of the banking group. The bank initially plans to enrol 100 mentors to work with the same number of startups.

Lloyds Banking Group innovation and digital development director Marc Lien said: "The mentoring programme is an opportunity to boost our support to the UK as one of the main fintech hubs, allowing us to share the insights of the challenges and opportunities that come with scale and an existing customer base to provide fintechs with a complementary understanding of the market."

The bank will collaborate with fintech accelerators Innovate Finance and Startupbootcamp to identify ideal candidates for the scheme.

The lender eventually intends to roll out a bespoke platform where these startups can register their interest, highlight their reasons to look for mentorship, and their required support areas.

"Through collaboration and partnerships with startups, we can support the evolution of how the financial services sector will serve its customers. This programme will be mutually beneficial as we can also learn lessons from fintech firms' successes and failures that will help shape and inform our digitisation journey," Lien added.

MOBILE

Société Générale invests in mobile payments outfit TagPay

French banking group Société Générale has acquired an 8% stake in mobile banking service company TagPay.

Launched in 2005, TagPay enables users to check balance statements from anywhere, and make fund transfers and bill payments via their mobile phones.

The platform makes use of cloud computing and can be used on all devices irrespective of network operators. The French lender paid $1m to TagPay for the stake.

According to Société Générale's Alexandre Maymat, the deal represented a significant step to grow the bank's business in the continent in the face of rising infrastructure costs.

Société Générale is present in 18 African countries, and launched its pan-African mobile banking offer in April 2015.

M&A

Qatari royal family becomes main shareholder in Deutsche Bank

Qatar's royal family has increased its stake in German banking group Deutsche Bank to nearly 10%, for an undisclosed amount.

The royals owned the stake in Deutsche Bank through investment groups Paramount Services Holdings and Supreme Universal Holdings. As of August 2015, the family controlled 6.1% of the bank through these two groups.

The rise in stake now makes the family the biggest shareholder in the German lender ahead of BlackRock which controls about 6% of the lender.

In addition, Deutsche Bank has also appointed lawyer Stefan Simon to replace supervisory board member Georg Thoma, heeding to the advice of the Qatari shareholder.

Simon will stand for election as a member of the supervisory board at the bank's annual general meeting on 18 May 2017.

Chairman of Deutsche Bank's supervisory board Paul Achleitner said: "We are pleased that our Qatari shareholders are banking on the success of Deutsche Bank as shown through their long-term holdings.

We welcome Stefan Simon, a highly qualified attorney, to the Supervisory Board. He has a great deal of experience in corporate law, corporate governance and compensation oversight."

Meanwhile, US attorney Louise Parent will replace Thoma as chair of the supervisory board's integrity committee. Parent has held the role on an interim basis since April 2016.

DISTRIBUTION

New mobile bank Neon debuts in Brazil

Neon, a new mobile-only bank with no monthly or annual fees, has launched in Brazil, targeting millennial clients.

The digital bank, founded under the stewardship of entrepreneur Pedro Conrade, is a spin off from fintech firm Contro.ly that was established in 2014.

Neon boss Pedro Conrade said: "My distaste with the traditional banking model started after a disastrous experience during international travel where my bank didn't bother to help me through a tough situation.

"It was then that I realised I was just another number to them."

The bank aims to build an active customer base of 100,000 in its first year of operation.

Customers of the bank will be issued one physical and one virtual Visa-branded card. The physical card can be used for point-of-sale purchases at retail locations, and the virtual card for online purchases.

Neon will use Daon's IdentityX platform for biometric authentication. Customers of the digital bank can use facial recognition to access their account and to make payments.

Daon CEO Tom Grissen said: "Daon works with some of the most innovative brands in the financial services industry and we're excited to be working with Neon to provide their customers with a superior user experience through the use of biometrics.

"Convenient and secure authentication has become critical in today's digital economy as customers embrace their smartphone as the preferred device to do business online."

STRATEGY

Citi creates ATM Community Network to offer surcharge-free ATM access to credit unions

US-based bank Citi has created the new Citi ATM Community Network to offer surcharge-free ATM access to partner credit unions as well as minority-owned banks.

The network will give participating organisations free access to about 2,400 branch ATMs of Citibank including those in Chicago, Los Angeles, Miami, New York, San Francisco and Washington DC.

Citi head of US retail banking Will Howle said: "The Citi ATM Community Network will expand access to ATMs in key areas by capitalising on our branch network in six major urban centres in the US.

"We take seriously our role of providing financial services to the broad spectrum of populations in the communities in which we operate, and the Citi ATM Community Network is yet another way we will do it."

Citi Inclusive Finance and Community Development global director Bob Annibale added: "The Citi ATM Community Network enables us to collaborate in a new way by expanding access and convenience for the customers of these partner institutions while at the same time, strengthening local trusted credit unions and minority-owned banks."

Organisations participating in the Citi ATM Community Network include the District Government Employees Federal Credit Union, the Lower East Side People's Federal Credit Union, the Neighborhood Trust Federal Credit Union, the New York University Federal Credit Union, the Brooklyn Cooperative Federal Credit Union, and the North Jersey Federal Credit Union.

DISTRIBUTION

Starling Bank secures UK banking licence

Starling Bank, a digital challenger bank founded in 2014 by former Allied Irish Bank COO Anne Boden, has been granted a UK banking licence by the UK's Prudential Regulatory Authority and the Financial Conduct Authority.

The mobile bank, expected to formally launch in January 2017, will allow customers to do everything from one account and help customers gain insights on their spending habits. Starling Bank will also incorporate advanced security features, card control technology and real-time notifications.

Starling Bank CEO Anne Boden said: "We are delighted to have the confidence and support of the regulator, to move forward and introduce a new style of banking.

"For the past year, our team has been focused on building our product and technology from the ground up.

"By 2020, the number of UK mobile banking users will double from 17.8 million to 32.6 million, and our aim is to empower these people to better manage their finances with an incredible app, purpose-built for those who happily manage their lives on their phone."

Moreover, the bank has also committed to join UK's real-time payment service Faster Payments later in 2016.

"Starling Bank is on track to be the first next-generation bank to connect directly to the Faster Payments system.

"This will allow us to offer the best possible payments experience to our customers and partners," Boden said.

To date, the bank has received $70m of investment from Harald McPike, founder of Bahamas-based quantitative investment manager QuantRes.

SECURITY

NetGuardians forges fraud protection partnership with BehavioSec

Swiss banking software company NetGuardians has forged a partnership with Sweden's BehavioSec to use their complementary technologies to deliver complete fraud protection to financial institutions globally.

NetGuardians is known for its specialised expertise in user behaviour analytics and profiling to implement controls for fraud and compliance challenges, while BehavioSec develops behavioural biometric technology to precisely analyse behaviours at the user transaction level, and alert behaviour changes that signal misuse.

Through the alliance, the companies intend to equip financial institutions' ability to protect clients by statistically scoring the behaviours they use during transactions.

Users' actions – such as the way they swipe smartphones – are very distinct, so continuous machine learning can authenticate users based not on what they do, but on how they do it, NetGuardians said.

BehavioSec's VP of engineering, Ingo Deutschmann, said: "This is superior transactional security to older methods such as passwords. A password can be hacked, but a swipe style cannot. At the same time, because it does not require users to take additional security steps, it offers the ease-of-use that consumers ask for.

"Users are protected in such a way that they don't have to think about their security. Security is built into their own actions."

NetGuardians added that financial firms can add this transaction-level protection to its operational risk solutions, which will provide end-to-end risk mitigation and continuous control for fraud protection and regulatory compliance.

NetGuardians COO Raffael Maio said: "Financial institutions today need fraud protection integrated into everything they do. Bank clients think about fraud risk most at the time they conduct transactions.

"With BehavioSec, we help financial institutions provide strong security for transactions, contributing to overall security and client confidence."

PAYMENTS

Lloyds Banking Group renews payments agreement with TSYS

Lloyds Banking Group has renewed its agreement with payment solutions provider TSYS to continue to process the bank's UK commercial card portfolio.

TSYS will continue to process the Lloyds Banking Group's portfolio on the TS2 Commercial platform following the contract extension.

It will also provide additional customer services to the bank through TSYS Managed Services including customer servicing, collection and fraud management.

Lloyds Banking Group head of commercial cards Jennie Hill said: "Having worked with TSYS since 2007, we are continually shown the strength and resiliency of TSYS' commercial card platform. We look forward to continuing to work with TSYS, benefiting from the continued investment in the platform so we can offer the best solutions for our customers."

TSYS International group executive Rob Hudson said: "Lloyds Banking Group is a key commercial card issuer in the UK and helps us to continue our position as the leading European commercial card processor. We will continue to support Lloyds Banking Group and work together to further grow the business and our relationship."

Lloyds Banking Group, which was formed in January 2009, has the largest private shareholder base in the UK. The group has more than 30 million customers and approximately 75,000 employees.

Operating a multi-brand strategy, the group's main brands include Lloyds Bank, Bank of Scotland and Halifax. It has more than 2,000 branches throughout the UK.

SECURITY

Nearly 30% of consumers worldwide have experienced card fraud

Nearly 30% of consumers across the world have been a victim of card fraud in the past five years, according to new global benchmark data from ACI Worldwide and Aite Group.

The global fraud study, in which over 6,000 consumers from 20 countries participated, revealed that compared to ACI's 2014 benchmark study, card fraud rates – unauthorised activity on debit, credit and prepaid cards – are rising worldwide.

The study also highlighted that 14 of the 17 countries surveyed in both years reported an increase in card fraud rates between 2014 and 2016.

It further revealed that risky behaviours, such as leaving a smartphone unlocked, have a direct correlation to fraud. The report pointed out that the overall risk for fraud is growing due to the global increase in smartphone and tablet use.

Mexico recorded the highest rate of fraud, followed by Brazil and the US, according to the report. The US is the only country to remain in the top three of the list for both years, due in part to being slow to roll out EMV-enabled chip cards and security challenges with skimming and data breaches.

The survey also found that around 54% of consumers globally exhibit at least one risky behaviour, such as keeping a PIN with the card, which puts them at higher risk of financial fraud, compared to 50% in 2014.

Nearly 17% of debit and credit card holders who participated in the study said they experienced fraud multiple times during the past five years compared to 13% in 2014.

ACI Worldwide vice-president and global lead of fraud and data Andreas Suma said: "This study confirms that card fraud remains an issue of deep concern for consumers around the globe."

DIGITAL

IBM to establish blockchain innovation centre in Singapore

Tech giant IBM is planning to open its first blockchain innovation centre in Singapore to accelerate blockchain adoption for finance and trade.

The company will work with the Singapore Economic Development Board (EDB) and the Monetary Authority of Singapore (MAS) to explore the use of blockchain and cognitive technologies to improve business transactions in several different industries.

The Innovation Centre will be staffed with technical talent from Singapore as well as researchers from IBM Research Labs worldwide. It will work with government, industries, and academia to develop applications and solutions based on blockchain, cybersecurity and cognitive computing technologies.

The centre will also engage with small and medium-sized enterprises to create new applications and grow new markets in finance and trade.

IBM Research global labs vice-president Robert Morris said: "Now with new cloud services that make these technologies more accessible, leaders from all industries are beginning to take note of the resulting profound and disruptive implications in a range of settings including finance, banking, the Internet of Things, healthcare, supply chains, manufacturing, technology, government, the legal system and more."

The first projects for the centre will focus on trade solutions using blockchain to improve efficiency of multi-party trade finance processes and transactions.

The solutions and associated blockchain platform will be designed and developed in Singapore, IBM said.

MAS chief fintech officer Sopnendu Mohanty said: "The financial sector is well-placed to play a leading role in Singapore's vision of being a Smart Nation.

"Given that technology is a key enabler of financial services, MAS is pleased to continue to work with companies like IBM to promote technology innovation in finance, and encourage the adoption of safe and efficient technology with the financial industry."

REGULATION

Major US banks pledge support for London following Brexit

Major US banks have pledged to help London maintain its position as a global financial centre following the UK's decision to quit the European Union.

The banks, which include JPMorgan, Goldman Sachs, Bank of America Merrill Lynch, Morgan Stanley and UK-based Standard Chartered, promised the UK's then-Chancellor of the Exchequer George Osborne that they would collaborate to identify new opportunities that may help the UK retain its position as one of the most attractive places worldwide for business.

"One of Britain's key economic strengths is that it is a world-leading financial centre. It has one of the most stable legal systems in the world, a brilliant workforce and deep, liquid capital markets unmatched anywhere else in Europe, all of which are underpinned by world class regulators," the banks' leaders and Osborne said in a joint statement.

"Today we met and agreed that we would work together to build on all this with a common aim to help London retain its position as the leading international financial centre," the statement added.

Just ahead of the Brexit vote, JPMorgan CEO Jamie Dimon had warned of shedding up to 4,000 UK banking jobs in the event of Brexit, while Citi had warned of an organisational restructuring of its UK business.

REGULATION

Tesco Bank, MasterCard partner to enhance in-store mobile payment experience

The European Union (EU) has given the go-ahead to its first legislation on cybersecurity to help vital services, including banking, to combat cyberthreats.

The new law will also impose security and reporting obligations on operators in other industries, including energy, transport and health.

The law also requires digital operators such as online marketplaces, search engines and cloud services to report breaches to national authorities, though security and notification requirements are lighter in case of these operators. The new law excludes micro- and small digital companies.

The legislation on cybersecurity calls for the formation of a strategic cooperation group to share data in cybersecurity capacity-building. Member states are required to establish a network of computer security incident response teams to manage risks, discuss cross-border security issues and detect coordinated responses.

All EU countries are required to implement a national NIS strategy.

Parliament rapporteur Andreas Schwab said: "Cybersecurity incidents very often have a cross-border element and therefore concern more than one EU member state. Fragmentary cybersecurity protection makes us all vulnerable and poses a big security risk for Europe as a whole.

"This directive will establish a common level of network and information security and enhance cooperation among EU member states, which will help prevent cyberattacks on Europe's important interconnected infrastructures in the future."

DIGITAL

South African lender Absa introduces Masterpass digital wallet

South African financial services giant Absa has launched MasterCard's digital payment platform Masterpass, to enable clients to make online payments with a virtual wallet.

Called Absa MasterPass, the app can be used to make online purchases wherever Masterpass is accepted.

Absa, a wholly owned subsidiary of Barclays Africa Group, said that its customers will also soon be able to pay for in-store shopping using Absa Masterpass.

Introduced in 2013, MasterPass securely stores consumers' credit, debit or cheque card information, and shipping and billing address details in a secure data centre at the issuing bank, and sends cardholder information to the merchant during the payment.

To pay, users open the app and scan the quick response (QR) code on the website, select the card they wish to use, and enter their bank PIN on their own device.

Mastercard launched the digital payment service in South Africa in July 2014. Currently, Masterpass is accepted at more than 270,000 merchants globally, including South African merchants such as Vodacom, Forever Resorts, Lancet Labs, Lottostar, South African Airways and Takealot.

Willie van Zyl, head of card issuing, Absa retail and business banking, said: "We are seeing a huge change in the way our customers shop and pay for things and the Absa Masterpass App is another step on our mobile banking journey as we respond to the changing needs of our customers.

"It also gives them access to a smooth shopping experience from start to finish and in real time.

"It allows people to conduct the transaction of their choice through the channel of their choice – at any time and in any place." ■

VocaLink finally captured by MasterCard

MasterCard's acquisition of VocaLink bolsters confidence in Britain remaining an attractive destination for international investors. It's been argued that the sale will improve competition in the UK banking industry, but will it deliver a new payments proposition? **Patrick Brusnahan** writes on the deal

After months of speculation, MasterCard has entered into a £700m ($920m) agreement to acquire VocaLink. VocaLink's investors could also receive a potential £169m earn-out if performance targets are met.

Under the agreement, a majority of VocaLink's shareholders, primarily UK-based banks, will retain 7.6% ownership for at least three years.

The sale process effectively kicked off in February this year when the UK Payment Systems Regulator Hannah Nixon recommended the UK's biggest banks sell their stakes in VocaLink. She argued that such a sale would help to improve banking competition in the UK and deliver clear benefits to challenger banks, fintechs, UK consumers and small businesses.

Nixon said: "There needs to be a fundamental change in the industry to encourage new entrants to compete on service, price and innovation in an open and transparent way."

Italian payments group, SIA, and a number of private equity firms had also been linked with possible bids for VocaLink prior to MasterCard's successful bid.

In an investors' call following MasterCard's acquisition of VocaLink, VocaLink CEO David Yates claimed that the company had 'outgrown its UK bank shareholder base'.

Speaking to *RBI*, Chris Dunne, director of market development at VocaLink, expanded on Yates' point.

He said: "I think David was talking about the success that VocaLink has been having

recently in other markets. We have won a number of contracts to take the technology that we've been running here in the UK into other markets, such as Singapore."

Mark Barnett, president of MasterCard UK and Ireland, explained the reasoning for the acquisition.

He said: "The best real-time ACH platform in the world is VocaLink's. They proved they can take it internationally to a few markets and, with our global reach, we think we can take it to many more.

"In addition, there are a bunch of new value added services that VocaLink have added which, given where MasterCard is in the UK, makes it really important to scale that bit of business in the UK."

Barnett isn't the only one pleased with the deal. The UK's finance minister, Philip Hammond, said: "MasterCard's decision to buy VocaLink shows that Britain remains an attractive destination for international investors. Britain is and continues to be an open and globally facing country in which to do business."

With the banks losing a huge chunk of their stake in VocaLink, there are worries that this will lead to increased costs to the banks, which would be moved onto consumers.

Dunne believed this to not be the case: "We have contracts in place to run the core service for 4–5 years and those contracts were fixed at the time of renewal. There is no additional cost or fee to the end consumer. Consumers benefit from most of these services for free anyway and that's the nature of the payments ecosystem."

One of VocaLink's more promising products is Zapp, also known as Pay by Bank app. It has had a turbulent time with launch delayed more than once and its CTO, Ian Sayers, leaving to join Danske Bank. However, Barnett remains enthusiastic.

"Zapp is a fantastic e- and m-commerce solution. It reverses the logic of a payment so consumers push a payment rather than getting pulled. MasterCard can bring that solution to the POS market. We have 40 million acceptance locations globally. Combine those two things and I think you have a new payments proposition which is cheap, secure, simple, and smart. It is a real innovation," Barnett said.

That's a lot of expectation, but Dunne believed that 'people will be using this very soon', even as early as the beginning of next year. ■

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